

Long Center for the Performing Arts

Arts Center Stage Ground Lease

January 13, 2005

Arts Center Stage Ground Lease

- Briefing concerning new proposal from Arts Center Stage (the Long Center)
- Operating under the First Amendment executed May 30, 2001
- Key terms included commencing construction by February 9, 2003 with right of possession having been granted effective August 9, 2002 to commence construction efforts together with minimum funding thresholds

Proposed Changes

- Arts Center Stage now requesting three major changes in the ground lease
- Goal is to construct the Center given new financing environment, but on a modified scale and with new financing requirements

Updated Changes

- Modification of number and capacity of halls and internal facilities
- Construction funding requirements to change from current requirement of 70% cash on-hand for construction purposes to some combination of cash, confirmed pledges, and financing to comprise the 70%
- Leave the total O&M reserve at \$10 million; Interest income would go to pay O&M expense, regardless of who operates the center, as long as the lease requirements were met; \$2.5 would also be available for emergency use, with \$7.5 remaining non-expendable

Scope of Review

- Review of Pledges
- Pro Forma of Post-Construction Operations
- Anticipated Cash Flow During Construction
- Overall Reasonableness

Review Limitations

- Construction Cost Estimates Not Studied
 - ◆ Independent 3rd party review approved by City prior to construction
- Pledges Not Confirmed with Donors
 - ◆ Will be confirmed after 3rd party review and prior to construction
- No Review of Past or Current Operations

Pledges

- As of October 31, 2004, the Long Center had outstanding pledges from donors totaling nearly \$40.5 million
- The majority of these donations are a part of their current capital campaign, with part of one pledge currently designated to establish an endowment

Pledges

- We reviewed signed pledge statements/agreements for all donors whose gifts were greater than \$100,000
- Our review covered over 96% of the total pledges
- Based on previous non-profit auditing experience, we did not see any unusual wording or conditions included in the pledge form
- The vast majority of the Long Center's pledges are from a few established donors. Three-fourths of the pledge balances are from 4 donors, which is only 2% of the total # of donors
- The City will confirm and approve major donors' pledges prior to construction
- Based on this review, the outstanding pledge balance, and the donation/pledge process utilized by the Long Center appear reasonable

Pro Forma

- We analyzed the major line items of the Long Center's pro forma for post-construction operations for reasonableness
- Our analysis included reviewing other performing arts centers' information, as well as additional financial-related information
- We also reviewed a recent survey done by HVS International on PACs and the industry outlook on future, as well as obtained information from a local company involved in the special events industry
- The specific revenue line items we reviewed are Rental Income, Other Presenting (Ticket Sales), Facility Ticket Surcharges, Investment Income, and Fundraising
- These line items make up 92% of the total revenue on the Long Center's pro forma for its baseline year of 2008-09
- We also analyzed expenses based on a % distribution among certain categories and compared the total O&M cost per square foot to other PACs

Pro Forma - Revenues

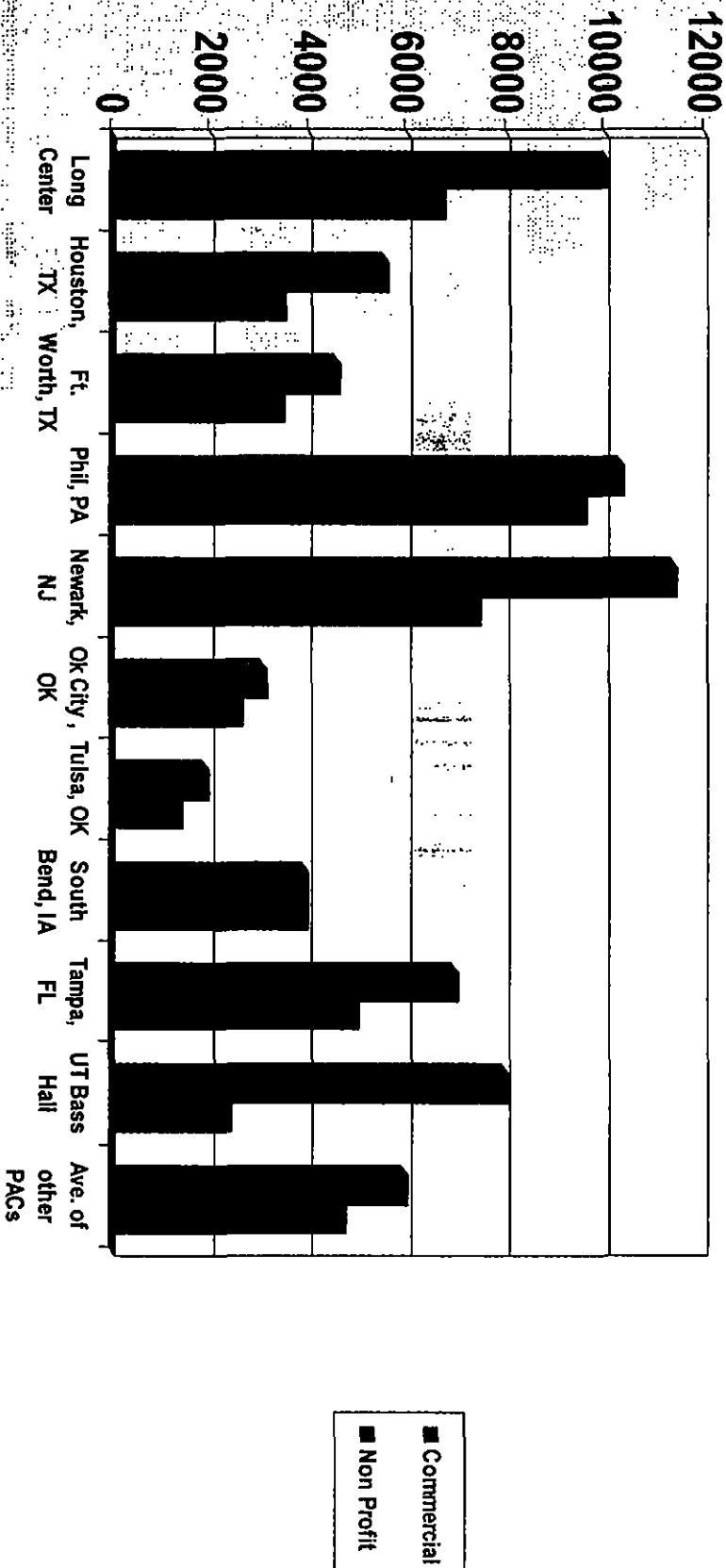
■ Rental Income - Rates

- ◆ While the base rental rate is higher than other PAC's, including UT's Bass Hall, most have additional charges related to the rental
- ◆ The Long Center includes those typical additional charges in its base rental rate
- ◆ Because of the nature of these additional charges and the varying types from one PAC to another, it was not possible to make an "apples to apples" comparison without additional in-depth analysis
- ◆ While we cannot determine a final reasonableness of the rental rates, based on the information we do have, these rates do not appear outlandish or unreasonable, as they are not the highest rates in our analysis, as seen on the following slide
- ◆ To help with this discussion, using some assumptions, we have made an additional comparison to the Houston rates with some of their additional charges included in their total rent

Pro Forma - Revenues

Comparison of Rental Rates

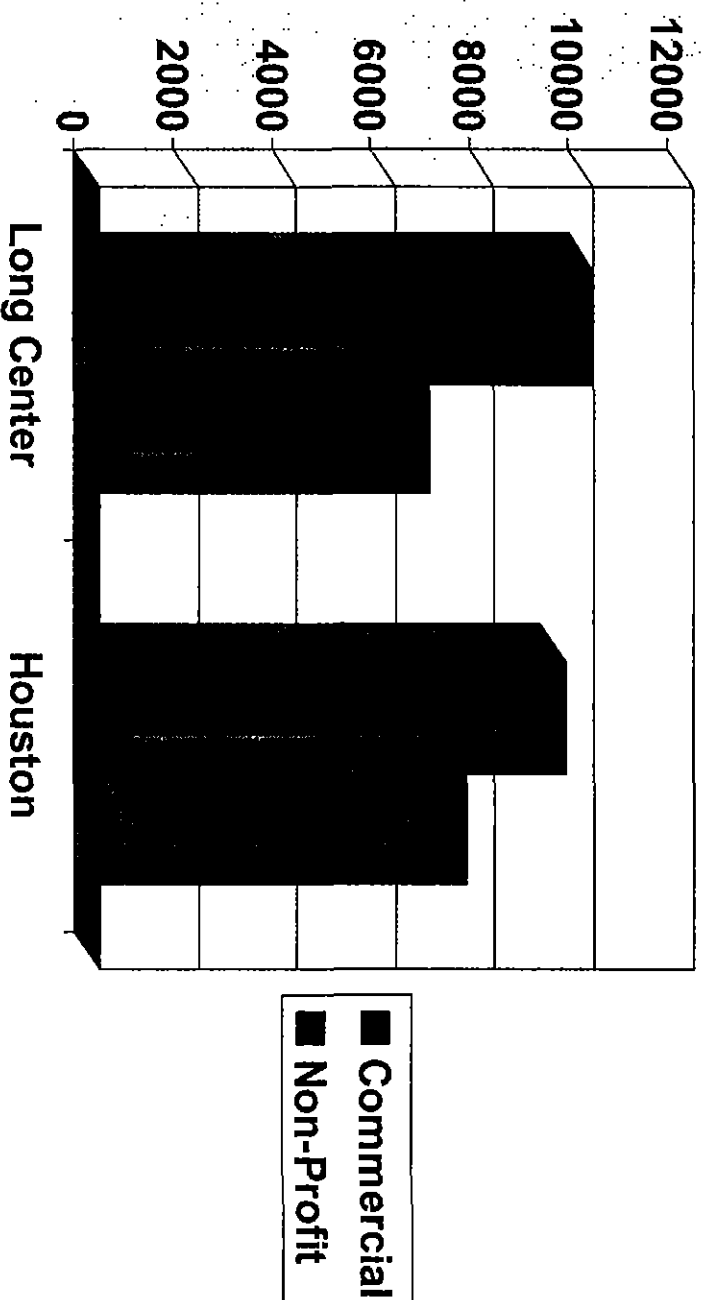
(Using Rental Rate for Initial Performance Only for One Venue)



Note: For this comparison, these rental rates were adjusted for inflation and the cost of living for each respective location. However, this comparison does not adjust for the differences in types of facilities, square footage, seating capacity, etc.

Pro Forma – Revenues

Additional Comparison to Houston Rental Rates
(including some of Houston's additional rental-related charges)



Pro Forma - Revenues

■ Rental Income - Usage

- ◆ The table below shows the projected number of performances for the Austin Symphony, Opera and Ballet compared to the approximate number of current performances at UT's Bass Hall:

	# of Estimated Long Center Performances	Approximate # of Current Bass Hall Performances	Increase / (Decrease)
Austin Symphony	44	27	17
Austin Opera	20	14	6
Austin Ballet	28	25	3

- ◆ Based on the information from the Long Center and Bass Hall, increasing the # of performances for any, or all of these resident companies would appear reasonable

Pro Forma - Revenues

- Ticket Sales
 - ◆ To analyze ticket sales from “Long Center Presents” events we analyzed:
 - ★ the # of total performances
 - ★ ticket price
 - ★ # of attendees (capacity)
- Based on our review, each element related to ticket sales appears reasonable

Pro Forma - Revenues

- Facility Ticket Surcharges are common charges of PACs and the Long Center's are reasonable when compared to others
- Investment Income
 - ◆ The Long Center has projected earning \$500,000 on the planned \$10 million endowment, using a rate of return of 5%
 - ◆ Based on the Congressional Budget Outlook's Economic Projections, the estimated average earnings for years 2007–2012 is 5.05%
 - ◆ The Long Center's investment income projections appear reasonable

Pro Forma - Revenues

■ Fundraising

- ◆ The fundraising amounts (\$600,000 - \$700,000) in the pro forma are “plugs”, or the “gaps”, or the amount needed to break-even based on the other line items
- ◆ Other PACs contributions for 2003 were as follows (excluding capital contributions):

	Approximate 2003 O & M Contributions
Ft. Worth, TX	\$950,000
Houston, TX	\$300,000
Phil, PA	\$7,500,000 *

* includes sponsorships and memberships

- ◆ From the PAC survey we reviewed, individual contributions was the 2nd largest funding source for the respondents
- ◆ While we cannot provide a conclusion as to the reasonableness of the contribution income in the pro forma, the Long Center's amounts are within the range of other PACs we reviewed

Pro Forma - Expenses

- Overall Expenses
 - ◆ We compared the Long Center expenses to other PACs
 - ◆ We categorized expenses in 4 categories: program expenses, artist fees, management and general, and fundraising
 - ◆ The percentage distribution of expenses was as follows:
- ◆ Because non-profits have some flexibility in how they categorize expenses, Long Center's expense distribution among categories appears reasonable

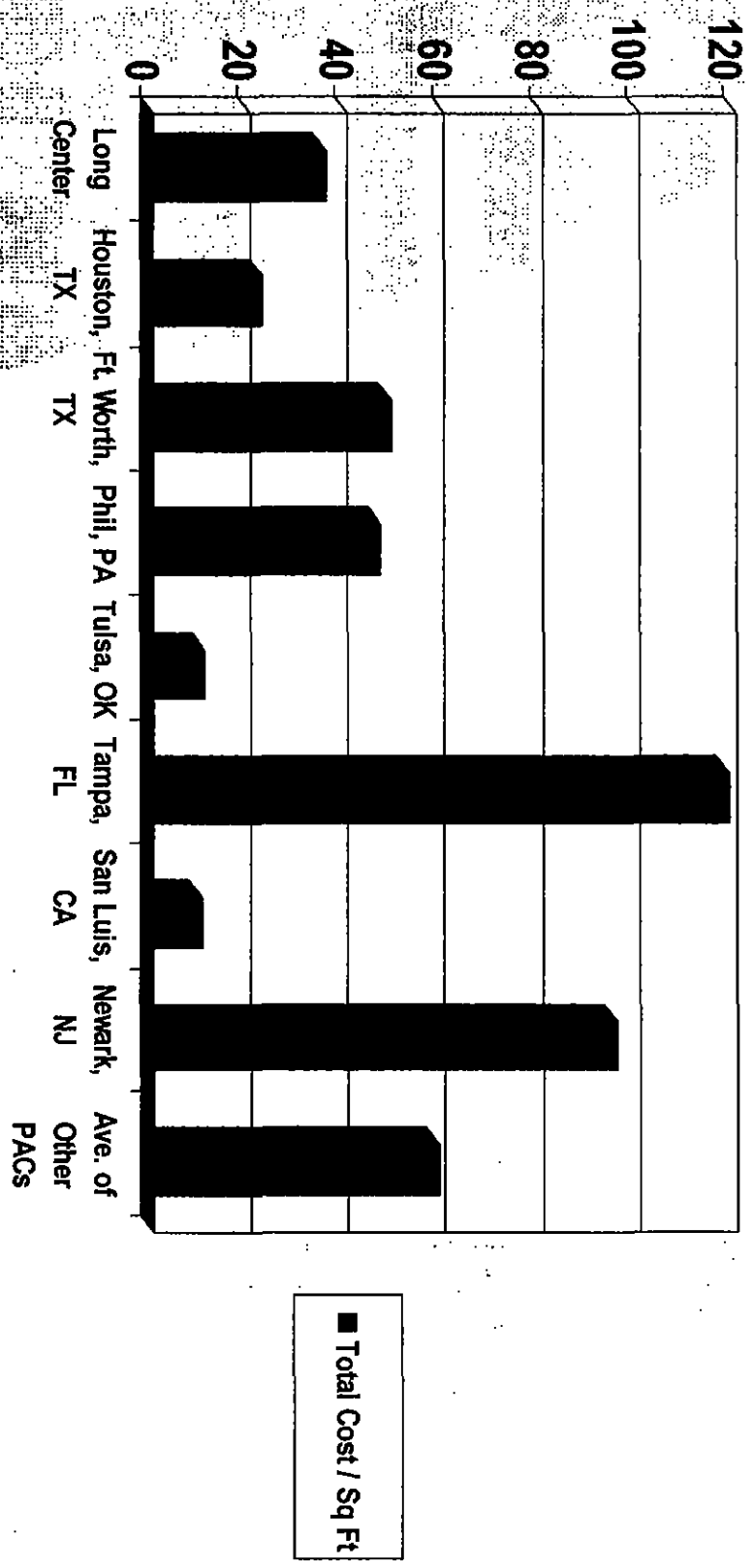
	The Long Center	Average of other PACs
Program Expenses	51%	54%
Artist Fees	22%	26%
Management and General	20%	15%
Fundraising	7%	5%

Pro Forma - Expenses

- O&M Cost per Square Foot
 - ◆ In order to make our comparison, we adjusted the Long Center's occupancy cost/sq ft in their pro forma to be the total O&M cost/sq ft
 - ◆ We also adjusted our results for inflation and cost of living for each of the other PACs used in the comparison
 - ◆ The cost per square foot for PACs varies greatly. Our results show a total O&M cost/sq ft from as low as \$10.02 up to \$118.46, with an average of \$58.74
 - ◆ We calculated the Long Center total O&M cost/sq ft to be \$35.46
 - ◆ A chart of the results of this analysis is on the following slide

Pro Forma - Expenses

Total O & M Cost/Sq Ft



Cash Flow Projections

- The Long Center has developed a cash flow projection through the construction period of fiscal years 2005 – 2007
- Based on the information we reviewed for the contributions to date, we projected the cash flow and determined the remaining amounts needed to be raised
- We estimate that the Long Center needs to raise an additional \$22.75 million to cover the construction of the Long Center and operations during construction
- Our calculation is on the following slide

Cash Flow Projections

(Based on October – November 2004 Information)

Cash Needed:	
Total Construction Cost	\$ 60,000,000
Less: Construction Amount Capitalized	(3,800,000)
Remaining Cost of Construction	56,200,000
Endowment	10,000,000
Operations during Construction	4,150,000
Total Needed	<u>\$ 70,350,000</u>
Cash and Investments on hand (at 10/29/04)	\$ 11,400,000
Outstanding Pledges and Related Income	41,200,000
Less: Amount Not Available during Construction	(5,000,000)
Total Cash, Investments, Pledges Available	<u>\$ 47,600,000</u>
Additional Needed	<u>\$ 22,750,000</u>

Overall Reasonableness

- Pledges to date and collectability appear reasonable
- Most aspects of pro forma appear reasonable – it will be reviewed by independent 3rd party prior to construction
- Cash flow projections indicate that approximately \$22.75 million additional pledges are needed to cover construction and operations during that period
- Barring obtaining a large donation/pledge, the Long Center will need to raise approximately \$7.5 million in each of the next 3 years, or 70-75% more each year than they raised in 2004, which was \$4.4 million

Summary of Lease Changes

■ Timing of Construction and Mix of Facilities

2001	2005
Construction to commence in 2003	Construction to commence in 2005
Commitment to build 2,200-seat main hall	No change
Commitment to build 700-seat intermediate theater	Now phased "subject to fund raising"
Rollins Hall – 250 seats – commitment	Now 240 seats

■ Requirements for Funds to Commence Construction

2001	2005
70% cash and financing	70% combination of cash, confirmed pledges, and financing approved by COA

Summary of Lease Changes

■ Operating Reserve Requirement

2001	2005
\$10M on hand when CO is granted - COA has lien on total amount	\$10M in total when CO is granted – COA has lien \$2.5M \$7.5M available to Long Center successor as nonexpendable trust

■ Construction Cost and O&M Feasibility Report

2001	2005
Report due prior to commencement of construction	Report due within 60 days of approval of lease changes
Report approved by City of Austin	Report approved by City as condition to commencement of construction